

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4035-02
Bill No.: HB 1660
Subject: Property, Real and Personal, State Tax Commission, Taxation and Revenue -
General, Taxation and Revenue - Property
Type: Original
Date: February 16, 2002

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|--------------------|--------------------|--------------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| Blind Pension | (\$179,000) | (\$198,000) | (\$205,000) |
| Total Estimated Net Effect on <u>All</u> State Funds * | (\$179,000) | (\$198,000) | (\$205,000) |

* excludes Foundation Formula adjustment.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|-----------------------|-----------------------|-----------------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| Political subdivisions * | (\$35,725,000) | (\$39,655,000) | (\$41,043,000) |
| Local Government * | (\$35,725,000) | (\$39,655,000) | (\$41,043,000) |

* excludes Foundation Formula adjustment.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of Administration - Division of Budget and Planning**, and the **State Tax Commission** did not respond to this proposal.

In response to a similar proposal, **State Tax Commission (TAX)** officials assumed \$21.1 Billion assessed valuation for owner occupied residential property. Assuming an 8% increase in residential assessed valuation in a 2 year assessment cycle, the increase would be \$408 million. Applying a statewide levy of \$6 per \$100 assessed valuation this equates to a perceived loss of revenue of approximately \$25 million.

State Tax commission officials also noted that they would be required to provide technological and instructional assistance to county officials, but would request additional resources as needed through budget decision items.

Oversight estimated possible losses as follows - an increase in taxes on residential property of 11% per 2-year cycle of reassessment, 44% of taxes paid are residential, an inflation rate of 3.5%, and annual change in consumer price index of 4.5%.

| | | |
|---------------------------------------|-----------|--------------------|
| Total property tax paid in 2000 | \$ | 3,922,378,000 |
| Percent residential | x | .44 |
| Residential Property Tax paid in 2000 | \$ | 1,725,846,000 |
| Projected Residential Tax 2002 | \$ | 1,915,689,000 |
| Projected Increase | \$ | 189,843,000 |

If increases are limited to the lower of the change in the consumer price index or 5% and the change in the consumer price index is 4.5%, then Oversight assumes the increase in assessments for each two-year cycle would be limited to 9% and the remaining 2% increase would be lost to the political subdivisions and the Blind Pension Fund.

| | | |
|--|-----------|-------------------|
| Projected Increase at 11% | \$ | 189,843,000 |
| Estimated Increase proportion lost due to limitation | x | 2/11 |
| Projected 2002 Increase Lost | \$ | 34,517,000 |

ASSUMPTION (continued)

Projected Losses for FY 2003:

\$34,517,000 x 1.035 = \$35,725,000

Projected losses for FY 2004:

| | | |
|--|----|---------------|
| Projected Residential Tax 2002 | \$ | 1,915,689,000 |
| Projected 11% valuation increase | \$ | 210,726,000 |
| Estimated Increase proportion lost due to limitation | x | 2/11 |
| Projected 2004 Increase Lost | \$ | 38,314,000 |

\$38,314,000 x 1.035 = \$39,655,000

Projected losses for FY 2005:

\$39,655,000 x 1.035 = \$41,043,000

There would also be losses to the Blind Pension Fund of a little more than ½ of 1% of the losses to political subdivisions.

In response to a similar proposal, **Department of Elementary and Secondary Education** officials noted that the proposal would decrease assessed values compared to current law, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “hold harmless” districts would recoup their losses through state payments, 2) state payments required by this proposal are not included in the Formula, thus allowing other districts a “double dip” consisting of reimbursements from the state and increased payments through a fully funded Formula, and 3) the effects of the proposal on the Formula should disappear after three or so years because reducing the guaranteed tax base reduces the inflationary adjustment in the Formula for districts to fund inflationary increases in expenses.

Oversight assumes that Foundation Formula issues, if any, would be addressed through the appropriation process.

| <u>FISCAL IMPACT - State Government</u> | FY 2003 (10 Mo.) | FY 2004 | FY 2005 |
|---|------------------------------|------------------------------|------------------------------|
| BLIND PENSION FUND | | | |
| <u>Cost</u> - reduced tax collections | <u>(\$179,000)</u> | <u>(\$198,000)</u> | <u>(\$205,000)</u> |
| ESTIMATED NET EFFECT ON BLIND PENSION FUND | <u>(\$179,000)</u> | <u>(\$198,000)</u> | <u>(\$205,000)</u> |
| <u>FISCAL IMPACT - Local Government</u> | FY 2003 (10 Mo.) | FY 2004 | FY 2005 |
| POLITICAL SUBDIVISIONS | | | |
| <u>Loss</u> - reduced tax collections | <u>(\$35,725,000)</u> | <u>(\$39,655,000)</u> | <u>(\$41,043,000)</u> |
| ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS * | <u>(\$35,725,000)</u> | <u>(\$39,655,000)</u> | <u>(\$41,043,000)</u> |

* excludes Foundation Formula adjustments.

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal would limit increases in residential property assessments to the lower of 5 percent or the increase in the CPI.

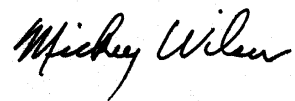
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue

NOT RESPONDING

State Tax Commission
Office of Administration
Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Acting Director
February 16, 2002